Cleveland on Cotton: Current Cotton Pricing and Demand Cycle Continues

December 09, 2024

By Dr. O.A. Cleveland

The December contract is history, and with that the March contract is now falling to the December contract low – just as you can make book that the May contract will replicate falling to the March expiry lows. Merchants have a vested interest in maintaining carry in the market. Growers continue to pay the storage and carrying costs. Unfortunately, you can make book on that, too.

Cotton lost the 71-cent battle but will revisit that level. However, it's not time for excitement just yet as the 68-70 cent mark will be touched again. The foreign crop is larger, and world carryover is increasing. Worst yet, world consumption is, at best, flat. Cotton just can't find a friend at the retail shelf. Cotton is just simply not on the consumer's mind – a market abdicated.

USDA's December supply demand report will be released on Dec. 10 and could paint a rosy picture. However, the March futures contract is playing its cards as if both world and U.S. stocks are increasing. All of this brings back the 66-67 cent price support that I had twice written off.

Nevertheless, I continue to find it difficult to see anything other than a momentary trade below 69 cents. The dominant trading range, based on the trading trend, is the very narrow three cent 69-73 cent range. However, 73 cents seems high, especially given the outlook for bleak export sales.

Net weekly export sales of upland fell to 170,700 bales with Vietnam (83,400 bales), Pakistan (36,700), and Turkey (20,400) being the primary buyers. Shipments totaled only 157,500 bales with primary destinations being Pakistan (31,500 bales), China (24,800), and Vietnam (20,900). Shipments significantly lag the pace needed to reach the current USDA estimate for the 2024-25 marketing year.

The new calendar will welcome a new Chinese import quota of 4.1-4.2 million bales. Certainly, the U.S. will get its share of that business, but that share is rapidly declining. Yet, as we have noted several times, the world cotton marketing structure has changed. The U.S. cotton industry is no longer the cotton world's primary player. The U.S. is not the primary producer, consumer, or exporter. More importantly, it has lost its comparative advantage in the cost of production. This is the most severe loss and the most punishing market loss the U.S. cotton industry has ever suffered. The market no longer must rise to a level necessary to keep the U.S. grower in business.

Just a simple comment here—the necessity to double down, actually triple down on promoting cotton, is paramount, a task the U.S. industry has completely failed.

Price advancement is also hampered by an unfriendly On-Call report. The ratio of on-call purchases (grower requirement to sell futures) versus on-call sales (mill requirement to buy) significantly favors on-call purchases, i.e., more cotton to sell than to buy. Granted, that is a point estimate, but it strongly suggests any price advance will likely be very restrictive. Yet, it does not mean that prices will not advance. However, the odds are not favorable (the merchants need to keep carry in the market so that they do not have to pay storage and carry, ensuring that growers incur those costs).

A 2.5 million bale sale to China would do the trick, but China is already flush with cotton and U.S. cotton, compared to other growths, is expensive. (There is discussion that lowering the value of the dollar would sell more cotton. True, but that comment is completely in a vacuum. Too, it does not speak to creating higher costs of production. Again, be wary of a cheap dollar. Exporting more may be akin to having a bigger truck – one can lose more that much quicker.)

Certainly, I do not pretend to speak for the cotton industry. Yet, at least as far back to the 1980s, the U.S. cotton industry has bemoaned “free trade” in favor of “fair trade.” All my theoretical economics mentors preached free trade, but all also declared it a mere framework from which to begin the tariff discussion, not a place to end the discussion. Those bemoaning tariffs forget that free trade is only a theoretical concept within the classroom topic of perfect competition. The anti-tariff discussion directly implies perfect knowledge between buyer and seller.

Do tell, tell me what the Chinese government is thinking, tell me exactly how they will act. Ditto, Canada. Ditto Mexico. The world cotton and textile industries are flush with tariffs. Too, production agriculture favors tariffs, that is, if it supports any government protection and or subsidization of agricultural production. In fact, the modern support for production agriculture had its birth only after the U.S. ended all tariffs against Europe and Japan to rebuild the world after World War II. That U.S. effort was rewarded by those same countries with massive tariffs against U.S. agriculture, causing the U.S. to develop the current price and production system in existence to this day.

The U.S. has constructed fewer tariffs than most other countries, although we have our share. The current tariff discussion, especially as it relates to agriculture, has been presented in a vacuum and has been more misleading than not. Again, free trade is only a theoretical framework and nowhere does it exist in a political economy.

Old crop's price ladder is still steep with only a very few rungs within reach. There is a steep step at 73 cents, and it becomes very slippery if 75 cents is touched.

New crop will face 2025 planted acreage of more than 11.0 million acres. My plantings estimate is easing higher, in tune with improved winter moisture in the Southwest. In fact, plantings of 11.5 million cannot be discounted. Other factors in support of cotton plantings include the importance of crop rotations, seed income, gin ownership, and warehouse ownership. New crop cotton production will be profitable.

Promote cotton!

Give a gift of cotton today.